



State of Arizona
Department of Education

Jaime A. Molera
Superintendent of
Public Instruction

July 15, 2002

CN 01-03

To: Child Nutrition Program Sponsors and Food Service Management Companies
Serving Arizona

From: Rick Hall, MS, RD, Team Leader
National School Lunch and Breakfast Programs

Subject: Food Service Management Company (FSMC) Guidance from the United States
Department of Agriculture (USDA)

MEMORANDUM

Due to a recent report from USDA's Office of the Inspector General (OIG) (Report No. 27601-0027-CH, April 2002) concluding that significant issues relating to FSMC contracts must be addressed the Food and Nutrition Service (FNS) Office intends to publish a proposed rule to effect specific provisions early in Fiscal Year 2004, in addition to updating the current FSMC handbooks by the end of March 2003.

FNS plans to issue policy guidance by the end of August 2002 reaffirming existing regulations and guidance in the following three areas of concern identified in the OIG audit:

- 1) the benefit of USDA commodities must accrue to the nonprofit school food service account and existing SFA contracts with FSMCs must be reviewed for compliance with current regulations (7 CFR Parts 250.12(d) and 210.16(a)(6)).
- 2) school food authorities maximizing the effective use of nonprofit food service accounts through their contracts with food service management companies. Accordingly, FNS expects its guidance to strongly encourage SFAs to include specific provisions in their contracts with FSMCs requiring competitive procurement of all acquisitions funded in whole or in part with nonprofit food service account funds and that costs charged under cost reimbursable contracts be reimbursable only to the extent that they are allowable costs net of all credits, discounts or rebates.
- 3) to ensure that State agencies have procedures in place so that SFAs contracting with FSMCs maintain reliable meal accountability systems.

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FNS is requesting suggestions on the nature of the clarifications that would be most helpful. FNS will consider the suggestions it receives with that requirement in mind, but does not intend to respond to or incorporate all suggestions. **Please submit suggestions for this guidance no later than August 1, 2002 to:**

Mr. Stanley C. Garnett, Director
Child Nutrition Division
USDA Food and Nutrition Service
Room 640
3101 Park Center Drive
Alexandria, Virginia 22302

If you have questions regarding this memo please call your assigned specialist or the general number at (602) 542-8700 or (800) 352-4558.